

Message Text

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ACTION NEA-10

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FM AMEMBASSY DACCA

TO SECSTATE WASHDC IMMEDIATE 9430

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E.O. 11652: N/A

TAGS: EAID, EAGR, EFIN, BG

SUBJECT: FY '76 PL-480 TITLE I PROGRAM FOR BANGLADESH

REF: A. 75 DACCA 5819 B. DACCA 5806 C. DACCA 288

1. SUMMARY. MISSION RECOMMENDS: (1) USG AMEND SEPTEMBER 11, 1975 FY '76 PL-480 TITLE I AGREEMENT WITH BANGLADESH TO PROVIDE FOR 450,000 MT OF FOODGRAINS, PREFERABLY WHEAT, THE BALANCE OF OUR FY '76 PLEDGE, IN TWO INSTALLMENTS; (2) THE FIRST 250,000 MT AMENDMENT BE SIGNED AT ONCE; (3) THE REMAINING 200,000 MT TO BE SIGNED MARCH 15 FOLLOWING FURTHER RATION PRICE INCREASES -- A KEY TO IMPROVING THE BUDGETARY OUTLOOK AND, OVER THE LONG TERM, INCREASING DOMESTIC PRODUCTION -- AS PROMISED BY BDG LEADERS. WE RECOMMEND DENIAL OF THE BDG REQUEST FOR AN ADDITIONAL 150,000 MT. END SUMMARY.

2. MISSION IN MID-NOVEMBER RECOMMENDED (REFTEL A) THAT USG WAIT 60 DAYS BEFORE TAKING A DECISION ON THE TIMING OF THE BALANCE OF OUR FY '76 FOODGRAIN PLEDGE (450,000 MT) OR ON THE BDG REQUEST (600,000 MT, REFTEL B). THAT PERIOD IS OVER AND WE SUBMIT HERewith OUR RECOMMENDATION TO PROCEED WITH THE NECESSARY AMENDMENT TO THE SEPTEMBER 11, FY '76 PL-480 AGREEMENT TO PROVIDE AT ONCE FOR A TRANCHE

OF 250,000 MT OF THE BALANCE OF 450,000 MT REMAINING AGAINST OUR LIMITED OFFICIAL USE

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850,000 MT PLEDGE AT THE JUNE 1975 BANGLADESH AID GROUP MEETING.

WE ASSUME THAT WE WILL MEET OUR PLEDGE IN FULL AND THAT THE ISSUE IS ONE OF TIMING. WE RECOMMEND THE TWO TRANCHE APPROACH PENDING FURTHER BDG ACTION TO MEET ITS PLEDGE TO RAISE THE ISSUE PRICE OF FOODGRAINS SOLD THROUGH THE RATION SYSTEM, A KEY TO PROVIDING AN INCENTIVE PRICE TO BANGALEE FARMERS.

3. PRICES, INCENTIVES AND PRODUCTION. THIS HAS BEEN A YEAR OF RECORD PRODUCTION. THE BUMPER CROPS, TOGETHER WITH IMPORTS AND REDUCED SMUGGLING, BROUGHT THE RICE PRICE DOWN TO ITS LOWEST LEVEL IN REAL TERMS SINCE THE IMMEDIATE POST-INDEPENDENCE PERIOD. (THE PRICE IS NOW RISING VERY MODESTLY AGAIN AND MAY WELL RISE FURTHER,

BUT IT IS NO LONGER AN INCENTIVE.) THIS SITUATION DOES NOT END THE NEED TO IMPORT FOODGRAINS; NEVERTHELESS, IT DOES EASE THE SUPPLY POSITION IN THE CITIES SOMEWHAT.

4. BDG INCENTIVE. THERE IS NO QUESTION OF THE EXTREME IMPORTANCE TO BANGLADESH LEADERS OF A CONTINUED FLOW OF IMPORTED FOODGRAINS TO FUEL THE RATION SYSTEM AND ABOVE ALL KEEP POTENTIALLY POLITICALLY ACTIVE DACCA-DWELLERS SUPPLIED WITH LOW-PRICED FOODGRAINS. THE INCENTIVE FOR BDG LEADERS TO DEVOTE ATTENTION, RESOURCES AND TALENT TO THE PROBLEM OF INCREASING DOMESTIC FOODGRAIN PRODUCTION IS REDUCED BY THE SECURITY PROVIDED BY US AND OTHER DONOR'S FOOD ASSISTANCE. THE US IS PROVIDING TWO THIRDS OF THE 273,368 MT OF FOODGRAINS NOW RPT NOW SCHEDULED TO ARRIVE IN BANGLADESH BETWEEN JANUARY AND JUNE, 1976. THE 450,000 MT BALANCE OF OUR PLEDGE IS THE ONLY ADDITIONAL FOODGRAIN ASSISTANCE ON THE HORIZON NOW AND WOULD BRING THIS PERCENTAGE TO OVER 87 PERCENT.

5. BUDGETARY SUPPORT. THE SALE OF FOODGRAINS THROUGH THE RATION SYSTEM IS BUDGETED TO EARN 3.9 BILLION TAKA IN FY 1976. 450,000 MT OF US WHEAT SOLD THROUGH THE RATION SYSTEM AT THE CURRENT PRICE WOULD COME TO ABOUT 650 MILLION TAKA (GROSS), OR ABOUT 7 PERCENT OF THE

FY '76 ANNUAL DEVELOPMENT PLAN. THIS IS AN IMPORTANT REVENUE SOURCE.

6. STORAGE STOCK POSITION, IMPORT OUTLOOK AND RATION OFFTAKE PROJECTIONS.

THE BEST INFORMATION ON ALL THEFS FACTORS, TRANSMITTED REFTEL C, MAKES IT CLEAR THAT THE STOCK POSTION WILL BE DRAWN DOWN RAPIDLY LIMITED OFFICIAL USE

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FROM FEBRUARY WHEN THE QUANTITIES ARRIVING EACH MONTH DECLINE RAPIDLY TO ZERO. HOWEVER, ADDING AN ESTIMATED 250,000 MT OF RICE PROCURED DOMESTICALLY FROM THE AMAN CROP PLUS ABOUT 70,000 PROCURED FROM EARLIER HARVESTS TO THE FIGURES LEAVES STOCKS ROUGHLY AT 500,000 MT ON JULY 1, 1976. THE UN FAO/WFP REPORT ON FOOD SECURITY (A-131, DECEMBER 19, 1975). RECOMMENDED STOCK LEVEL OF 400,000 TO 600,000 MT. STOCKS AT JULY 1, 1975 WERE A COMFORTABLE 750,000 MT, WELL ABOVE THE JULY 1, 1974 LEVEL OF 217,000 MT. A LEVEL OF 500,000 MT

AS BANGLADESH APPROACHES ITS ANNUAL QTE LEAN UNQTE SEASON PRECEDING THE MAJOR RICE HARVEST WOULD BE ADEQUATE ONLY IF THERE WERE ASSURED FLOWS OF IMPORTS SCHEDULED EACH MONTH. IN THE ABSENCE OF SUCH ASSURED ARRIVALS, THE PROJECTED 500,000 MT, OF WHICH 300,000 MT WOULD BE IN SMALL QUANTITIES SCATTERED ABOUT THE COUNTRY, MUST BE REGARDED AS INADEQUATE.

7. PORT CAPACITY. THE ENTIRE FOODGRAIN RATION SYSTEM OPERATES BEST WHEN FLOWS ARE SMOOTH. TO HAVE, FOR EXAMPLE, 286,909 MT ARRIVE IN DECEMBER AND NONE IN MAY IS SIMPLY WASTEFUL AND INEFFICIENT. IN A DRY MONTH, CHITTAGONG CAN HANDLE 200,000 MT COMFORTABLY; DURING THE MONSOON, THE CAPACITY IS REDUCED.

8. WHEAT, NOT RICE. THE ENTIRE 450,000 MT BALANCE SHOULD CONSIST OF WHEAT. WHEAT IS CHEAPER TO BUY; CHEAPER TO SHIP; EASIER AND QUICKER TO HANDLE; MORE NUTRITIOUS; IN FAR SHORTER SUPPLY IN BANGLADESH; LESS SUBSIDIZED; AND PREFERRED BY THE BDG.

9. NO COMMERCIAL PURCHASES. BDG OFFICIALS TELL US THEY ARE UNABLE TO FINANCE ANY FURTHER COMMERCIAL PURCHASES OF FOODGRAINS THIS FISCAL YEAR.

10. CONCLUSION. WE SHOULD STAND BY OUR PLEDGE TO PROVIDE 850,000 MT IN FY '76. AN AMENDMENT TO THE PRESENT FY '76 PL-480 TITLE I AGREEMENT FOR 250,000 MT, IF SIGNED, SAY FEBRUARY 1, WOULD PROBABLY RESULT IN FOOD ARRIVING BEGINNING IN MAY, THREE MONTHS LATER. AT PRESENT THERE ARE NO FOOD SHIPMENTS SCHEDULED TO ARRIVE IN MAY OR JUNE. STOCKS WILL HAVE FALLEN BELOW THE 600,000 MT LEVEL THEN AND STORAGE PROBLEMS WILL HAVE EASED. ARRIVALS SHOULD BE PROGRAMMED TO TAKE ACCOUNT OF THE MONSOON LIMITATIONS, WITH THE TOTAL SPACED OUT OVER THE ARRIVAL MONTHS. ASSUMING PROGRESS ON THE RATION PRICE QUESTION, AS PROMISED BY BDG OFFICIALS, AN AMENDMENT FOR THE LIMITED OFFICIAL USE

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REMAINING 200,000 TONS COULD BE SIGNED MARCH 15 FOR DELIVERY IN JULY AND AUGUST. ARRIVALS IN THOSE MONTHS WOULD BE IN PLACE AT THE START OF THE LEAN SEASON, WHEN FOODGRAINS ARE IN SHORTEST SUPPLY. WE RECOMMEND THAT WE DENY THE BDG REQUEST FOR A FURTHER 150,000 MT (DACCA 5806). WE DON'T THINK IT'S NEEDED; IT WOULD PROVE A DISINCENTIVE TO ITS

OWN EFFORTS TO BOOST DOMESTIC PRODUCTION; AND MIGHT DISSUADE OTHER DONORS FROM PROVIDING FOOD ON CONCESSIONAL TERMS.
BOSTER

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